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Great Expectations

By Dawn Klingensmith, CTW Features

Buying a home doesn't have to be hard. Here's a guide to the ins and outs of the process so you can start your dream-home search off right.

If you do not own a home, you might as well buy one because you're already contributing to a mortgage – your landlord's.

That's one case for homeownership Seattle-based broker Carolyn Warren makes on her Web site, mortgage-helper.com. But though it's easy to understand the benefits of owning your own home – especially now that house prices and interest rates are so low – the buying process is daunting.

"I think everyone should have to take a little class so they know what they're getting themselves into," says mortgage banker Mary Ann McGarry, adding that such classes are widely available for free through various organizations.

Here, we offer a sort of CliffsNotes study guide in homebuying, from setting a budget to signing on the dotted line.

Know Your Credit History and Score

Check your credit report, resolve any inaccuracies and bone up on ways to boost your score if necessary. A FICO score of 620 used to be the benchmark for getting a loan, but lenders now want scores in the 740 to 760 range. Track your fixed living expenses, discretionary expenses and miscellaneous purchases for 60 days to establish a target monthly mortgage payment based on your income relative to your expenses. At the same time, look into programs that offer down payment assistance to first-time buyers.

On top of your down payment, you should have a "home expense fund" totaling 2 percent of your projected purchase price. So if you're looking at homes in the \$200,000 range (multiply your income by two or three to establish parameters), you should have \$6,000 squirreled away for the "ongoing costs of home ownership," including upkeep, emergency repairs, and household purchases, such as a lawnmower and window blinds, says personal finance expert Lynnette Khalfani-Cox, the Mountainside, N.J.-based author of "Your First Home: The Smart Way to Get It and Keep It" (Advantage World Press, 2008).

Make a 'Property Wish List'

Decide on what you want, and then prioritize features, suggests real estate broker Gea Elika, of Elika Associates, New York. For example, how close do you need to be to public transportation, an expressway, an airport or a playground? How many bedrooms do you need?

Get a Good-Faith Estimate

Request up to three good-faith estimates as a means of choosing your loan officer. A GFE shows your loan amount, interest rate, monthly payment, and fees and costs. Warren offers a sample script in her book, "Homebuyers Beware: Who's Ripping You Off Now?" (FT Press, 2009):

"I am in the market to buy a house. I'm looking in the \$250,000 price range, and I have 10 percent to put down. My credit score is 805. Will you please e-mail a Good Faith Estimate so I can see what my loan would look like?" An honest mortgage professional won't insist on pulling your credit report before providing you with a GFE, Warren writes.

Get Pre-Approved and Get Hunting

Organize the documentation a lender will need to pre-approve a loan, including bank statements, pay stubs, personal identification and tax forms. Get pre-approved for a loan before you start house hunting, and then select a buyers' agent. "An agent can pre-screen homes for you so you don't waste time looking at houses that don't fit your requirements," Khalfani-Cox says.

When house hunting, don't call the agent on the for-sale sign. "When you go directly to a listing agent, you're not fully protected," says Sang Oh, of the Wall Street-based brokerage Platinum Properties. "The listing agent's position is to represent the seller and protect their interests by trying to get them the highest price."

Bring along a notepad and digital camera, Khalfani-Cox suggests. After looking at several homes, it's difficult to remember which one had the Viking oven range and which had the koi pond in the backyard.

Your buyer's agent will prepare and submit your offer when you find what you hope will be "Home Sweet Home." Once price and other details have been negotiated, ask your buyer's agent to forward a copy to your loan officer, and lock in your interest rate. (In certain circumstances, it might be better to choose a "float-down option" rather than locking in. Warren devotes an entire chapter to this topic in her book.)

Get Inspected

Get a home inspection even if you're buying new construction. You will receive a detailed report of any code violations and repairs that need to be made, which will be your basis for further negotiations, Warren says. You then will need to pay for an appraisal report, which your loan officer will order.

At the closing, you will be presented with a breakdown of your loan costs called a HUD-1 statement, which Warren describes as "the final draft of the Good Faith Estimate." You should compare the two because GFEs are "notoriously inaccurate," Khalfani-Cox says. You're entitled to request a copy of the HUD-1 statement 24 hours prior to the closing, and she recommends you do so because you'll be more likely to overlook errors and "junk fees" under pressure. Keep in mind, though, that certain discrepancies and add-ons, such as third-party fees, are inevitable.

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Sometimes when sizing up a house, people are so charmed by features or get so caught up picturing themselves decorating and entertaining that they don't notice flaws both large and small, like a lack of closet space. Other times, they focus on things that don't matter in the grand scheme of a home purchase.

To avoid buyer's remorse, heed these do's and don'ts.

Do

- "Visit the house at different times of day, as traffic, noise level and neighbor behavior may vary," says real estate broker Diane Saatchi, the Corcoran Group, East Hampton, N.Y.
- Take a measuring tape to make sure your furniture fits in the new space. See to it that costs of utilities are verified and adjusted for your use. For example, the sellers' heating costs may be low because they stay down South all winter.
- Compromise, when necessary, on things that can be switched out, updated or fixed most easily. For example, if both a basement and a garage are on your wish list, "it's best to go with the basement, knowing a garage can be added later," Saatchi says.
- "Avoid buying homes in areas that are economically depressed, crime-ridden or poorly situated. Think about the prospect of selling home down the road," Khalfani-Cox says. You might not be bothered living by train tracks or a busy highway, but a poor location is a turnoff for prospective buyers.

Don't

- Be so concerned about resale that you forget your needs.
- Be seduced by trims and trappings; you're not buying the décor and furnishings. "Don't let emotions cause you to pay for what you will not be getting. Sellers stage because buyers pay more for well-dressed homes," Saatchi says.
- Quibble over little things like mismatched switch plates — especially if it's a ploy to downplay your interest. Some seller's agents say they love it when you fuss over little details because it means you are picturing yourself in the home, Khalfani-Cox says.
- Allow the home inspector's report to shatter your confidence and resolve if no major defects turn up. The document will be long and detailed, including such minor flaws as a missing cabinet knob.
- Overlook the quality of the school district even if you don't have kids. "It's often a big selling point for a home," Elika says, "so it's a factor to consider, as it may impact your home's resale value."

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